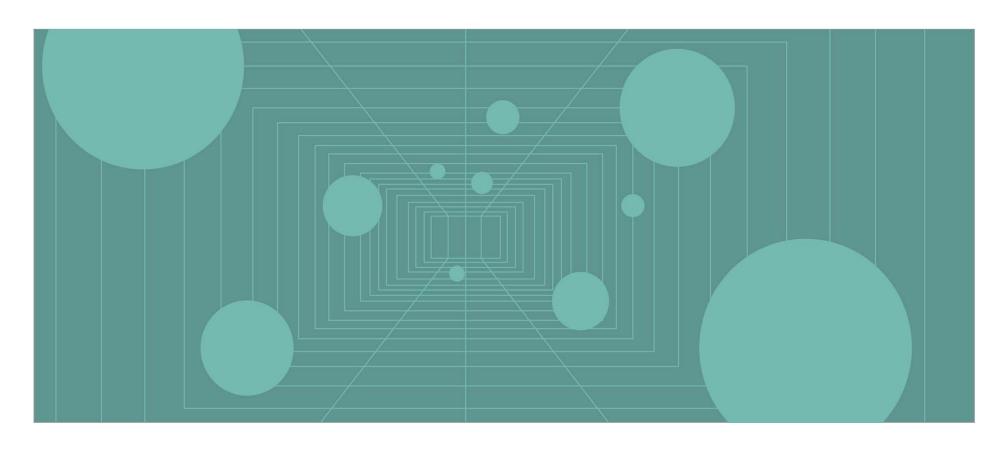
# GLOBAL EX US EQUITY MANAGER PERFORMANCE

ANALYSIS OF 2017 AND PERFORMANCE SINCE 2000





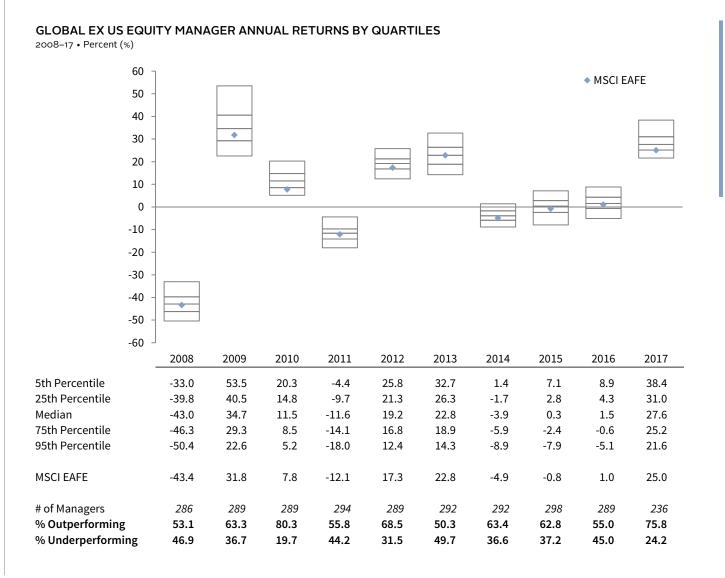
### **Summary Observations**

- In 2017, 75.8% of active Global ex US managers outperformed the MSCI EAFE Index gross of fees, with the median manager outperforming by 260 basis points (bps). Since 2000, the median manager has only underperformed the index twice, and the majority of managers have outperformed the index every year for the past ten years, gross of fees.
- Even after adding a fee proxy of 70 bps, more than two-thirds (68.6%) of managers outperformed the benchmark in 2017. Further, more than 43% of managers beat the benchmark by over 250 bps, representing significant value add. Since 2000 versus the fee-adjusted index, the majority of managers have outperformed in ten years, compared to eight years of underperformance.
- By style, the median growth manager in the Global ex US space outperformed the MSCI EAFE Index by a huge 620 bps gross of fees, followed by diverse managers (outperforming by 310 bps), and finally value managers, which outperformed by 120 bps. Both growth and value managers outperformed their style benchmarks, too, with growth managers beating the MSCI EAFE Growth Index (up 28.9% in 2017) by 230 bps, while value managers outperformed the MSCI EAFE Value Index (up 21.4% in 2017) by 480 bps. Looking longer term, the median value manager has outperformed the value index in nine of the last ten years. Growth managers have had a slightly more difficult time outperforming MSCI EAFE Growth in the past ten years, trailing in three years.
- On an average and median basis, managers were overweight in the same three sectors versus the MSCI EAFE Index as they were in 2016: consumer discretionary, energy, and IT. The most significant overweight was to IT (overweight by almost 460 bps). The IT sector outperformed MSCI EAFE by more than 880 bps, cementing the median manager overweight as a solid bet for the year. Conversely, the biggest underweight was to Real Estate (underweight by 250 bps), which underperformed the MSCI EAFE by about 330 basis points, a relative loss the underweight to the sector partly mitigated.

## **Summary Observations (continued)**

- On an average and median basis, managers were again underweight the six countries to which the MSCI EAFE Index has a weight greater than 5%. The largest underweights were to Japan and Australia, both of which underperformed MSCI EAFE in USD terms. Global ex US equity managers tend to make a number of off-benchmark country bets. In 2016, over half of the managers that reported country allocations had an allocation to six countries not in MSCI EAFE: Canada, China, South Korea, Taiwan, Brazil, and India. All of these countries except Canada and Brazil beat MSCI EAFE in USD terms; China and Korea both returned over 45% for the year, meaning that managers' exposures to these countries likely helped performance versus the index.
- High dispersion in stock returns is often thought to mean more managers will outperform. In fact, the relationship is extremely weak. Rather, stock dispersion is more likely to increase the dispersion of managers' excess returns—greater stock dispersion gives managers more of an opportunity to separate from the pack, but this can be to the upside or the downside. Post global financial crisis, stock return dispersion has been quite low; 2017 was the lowest level in the 2000–17 period tracked in this report.
- Persistence in manager outperformance is rare, and movement among performance quintiles is fairly common. More than half of managers in the bottom quintile from 2008–12 ended up in the top two quintiles in the 2013–17 period.

## 75.8% of managers outperformed the index in 2017



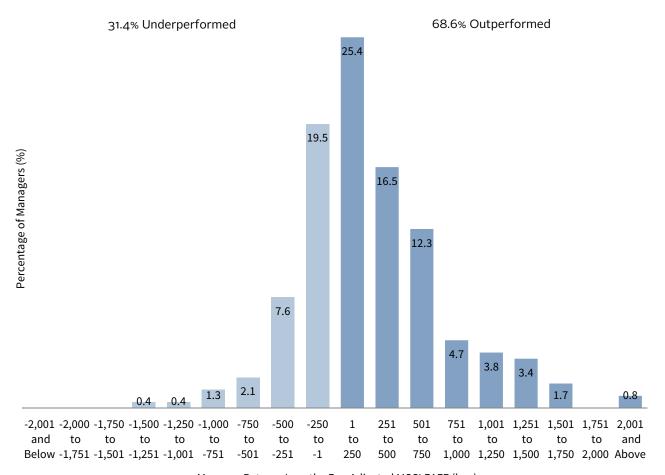
In each of the last ten years the majority of active managers have outperformed the index gross of fees, and 2017's percentage of outperformers was the highest since 2010

managers must have had performance available for the full period.

## 68.6% of managers outperformed the fee-adjusted index in 2017

#### MANAGER RETURNS RELATIVE TO THE FEE-ADJUSTED MSCI EAFE INDEX

Calendar Year 2017 • n = 236

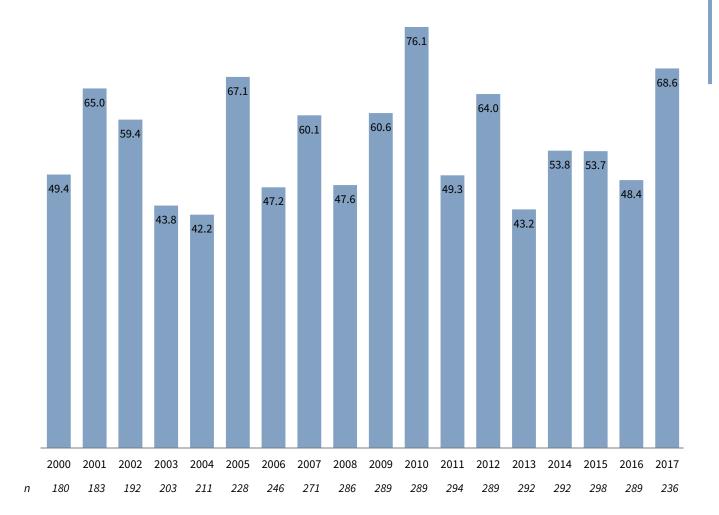


Over 43% of managers outperformed the feeadjusted index by more than 250 bps

Manager Returns Less the Fee-Adjusted MSCI EAFE (bps)

## Active manager outperformance is cyclical

## PERCENTAGE OF GLOBAL EX US EQUITY MANAGERS OUTPERFORMING THE FEE-ADJUSTED MSCI EAFE INDEX 2000–17 • Percent (%)

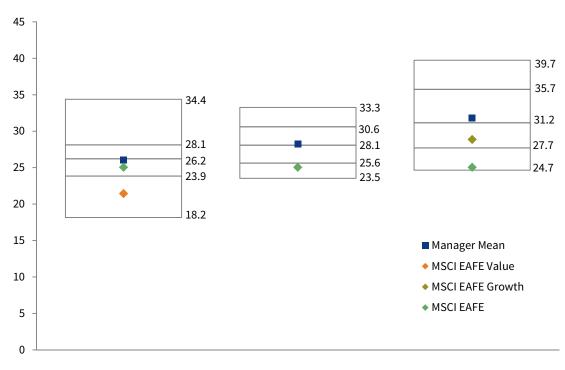


Since 2000, the median manager has underperformed in eight years and has now outperformed in ten

## The median growth manager and the median value manager both outperformed their respective style indexes

#### GLOBAL EX US EQUITY MANAGER UNIVERSE RETURN QUARTILES BY INVESTMENT PHILOSOPHY

Calendar Year 2017 • Percent (%)



Managers across styles outperformed against both the MSCI EAFE headline index and their respective style indexes, with value managers showing the strongest outperformance relative to their style benchmark

	Value	Diverse	Growth
High	40.9	38.4	46.3
Manager Mean	26.0	28.2	31.8
Low	12.0	22.4	23.4
MSCI EAFE	25.0*	25.0	25.0*
Number of Managers	88	38	59



Sources: Cambridge Associates LLC, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Managers that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded. Performance is generally reported gross of investment management fees. Only managers with performance available for the entire period measured are included.

<sup>\*</sup> The MSCI EAFE Value Index returned 21.4% in 2017; the MSCI EAFE Growth Index returned 28.9%.

## Investment styles go in and out of favor over time

#### THE CYCLICAL NATURE OF GLOBAL EX US EQUITY INVESTMENT PHILOSOPHIES

2000-17 • Percent (%)

#### **Annual Total Returns**

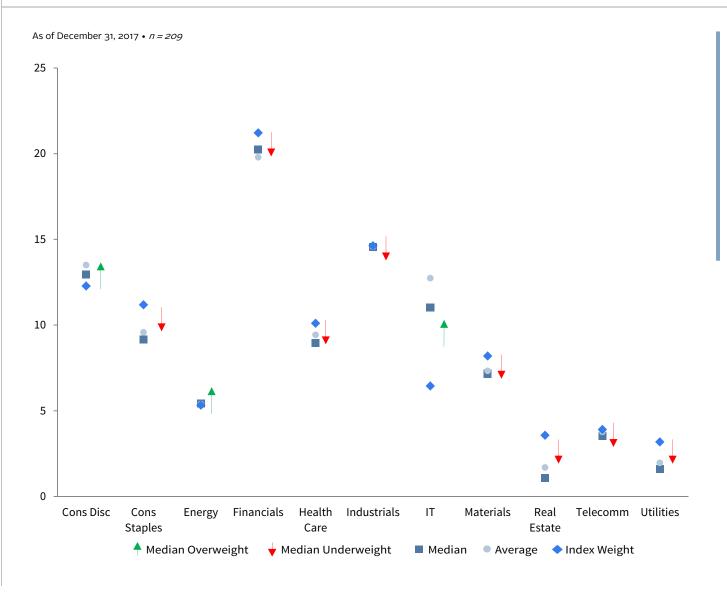
-16.3 -21.9 -16.4 34.6 17.9 17.3 24.2 17.7 -45.2	74 76 78 76 75 78 79 82 91	Value Mgr -5.9 -12.6 -10.1 41.5 22.7 14.4 28.3 9.9	53 51 57 67 74 82 93 97	(MSCI EAFE) -14.2 -21.4 -15.9 38.6 20.2 13.5 26.3 11.2
-21.9 -16.4 34.6 17.9 17.3 24.2	76 78 76 75 78 79 82	-12.6 -10.1 41.5 22.7 14.4 28.3 9.9	51 57 67 74 82 93 97	-21.4 -15.9 38.6 20.2 13.5 26.3
-16.4 34.6 17.9 17.3 24.2	78 76 75 78 79 82	-10.1 41.5 22.7 14.4 28.3 9.9	57 67 74 82 93 97	-15.9 38.6 20.2 13.5 26.3
34.6 17.9 17.3 24.2 17.7	76 75 78 79 82	41.5 22.7 14.4 28.3 9.9	67 74 82 93 97	38.6 20.2 13.5 26.3
17.9 17.3 24.2 17.7	75 78 79 82	22.7 14.4 28.3 9.9	74 82 93 97	20.2 13.5 26.3
17.3 24.2 17.7	78 79 82	14.4 <b>28.3</b> 9.9	82 93 97	13.5 26.3
24.2 <b>17.7</b>	79 82	<b>28.3</b> 9.9	93 97	26.3
17.7	82	9.9	97	
				11.2
-45.2	91	41 C		
		-41.6	98	-43.4
35.8	86	34.7	101	31.8
12.4	83	10.6	101	7.8
-11.1	83	-11.6	103	-12.1
19.5	78	18.6	103	17.3
20.3	78	23.2	106	22.8
-3.4	78	-4.6	106	-4.9
1.3	82	-0.9	104	-0.8
-0.3	79	3.4	99	1.0
31.2	59	26.2	88	25.0
	19.5 20.3 -3.4 1.3 -0.3	19.5       78         20.3       78         -3.4       78         1.3       82         -0.3       79	19.5       78       18.6         20.3       78       23.2         -3.4       78       -4.6         1.3       82       -0.9         -0.3       79       3.4	19.5       78       18.6       103         20.3       78       23.2       106         -3.4       78       -4.6       106         1.3       82       -0.9       104         -0.3       79       3.4       99

#### Average Annual Compound Returns: Periods Ended December 31, 2017

	•				•
Trailing 15-Yr	9.8	26	9.4	36	8.1
Trailing 10-Yr	3.9	45	3.2	65	1.9
Trailing 5-Yr	9.1	49	8.8	80	7.9
Trailing 3-Yr	9.3	56	9.1	85	7.8

Growth returned to favor in 2017 after a brief stint of value outperformance in 2016

## Managers' different sector allocations can affect relative performance



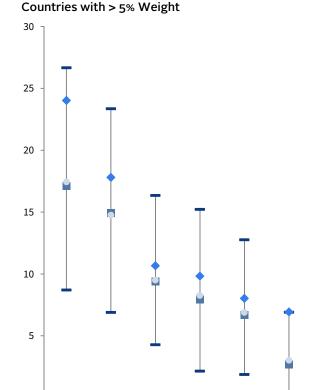
On an average and median basis managers were overweight consumer discretionary, energy, and IT in 2017 relative to MSCI EAFE; the most significant overweight was to IT, a sector responsible for about 10% of the overall index return for the year

## Off-benchmark country bets can significantly affect relative performance

#### GLOBAL EX US EQUITY MANAGERS' COUNTRY ALLOCATIONS VS THE MSCI EAFE INDEX

As of December 31, 2017 • n = 211

Manager Allocations to Six MSCI EAFE



France Germany Switzer- Australia

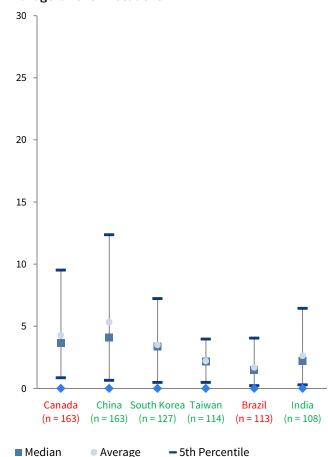
- 95th Percentile

land

(n = 166)

EAFE Index

## Off-Benchmark Countries Where >50% Managers Have Allocations



A majority of managers had allocations to five countries not in the MSCI EAFE Index, and all except Canada and Brazil outperformed the index in 2017

Japan

UK

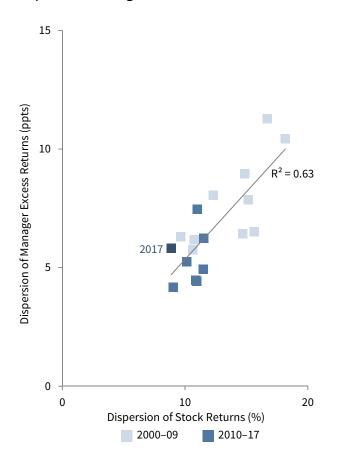
(n = 209) (n = 211) (n = 206) (n = 204)

## Dispersion of stock returns is correlated to dispersion of manager performance

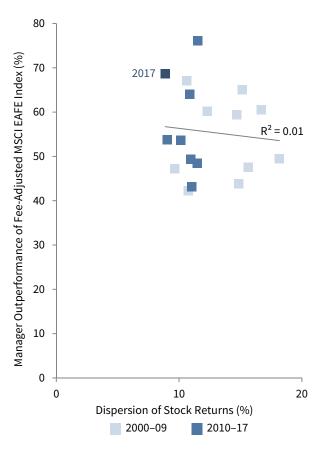
IMPACT OF ANNUAL DISPERSION OF GLOBAL EX US STOCK RETURNS ON DISPERSION OF MANAGER EXCESS RETURNS AND PERCENT OF MANAGERS OUTPERFORMING

2000-17

## Dispersion of Stock Returns and Dispersion of Manager Performance



## Dispersion of Stock Returns and Managers Outperforming



No relationship exists between stock dispersion and percentage of managers outperforming the index

Sources: Cambridge Associates LLC, FactSet Research Systems, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Dispersion of return for stocks is represented by the square root of the sum of the squared differences between returns for each constituent and the index return multiplied by the weight of the constituent in the index. Dispersion of excess returns for managers represents managers in the middle 50% of the return range for global ex US equity managers. Cambridge Associates LLC's (CA) manager universe statistics are derived from CA's proprietary Investment Manager Database. Managers that do not report in US dollars, exclude cash reserves from reported total returns, or have less than \$50 million in product assets are excluded. Performance is generally reported gross of investment management fees. We have added 70 bps to the MSCI EAFE Index return as a proxy for manager fees. Number of managers included in medians varies from quarter-to-quarter. To be included in analysis of any period longer than one quarter, managers must have had performance available for the full period.

## Movement between top and bottom quintiles is fairly common

#### ANALYSIS OF GLOBAL EX US EQUITY MANAGER RETURNS BY QUINTILE OVER FIVE-YEAR PERIODS

2008-17 • *n* = *161* 

Where Did They Go?		Where Did They Come From?			
Initial 5-Yr	Subsequent	% of Managers	Subsequent	Initial 5-Yr	% of Managers
Period	5-Yr Period	From Initial Quintile	5-Yr Period	Period	From Initial Quintile
(2008-12)	(2013-17)		(2013-17)	(2008-12)	
Quintile	Quintile		Quintile	Quintile	
	1	34.4%		1	34.4%
	2	12.5%		2	9.4%
1	3	9.4%	1	3	21.9%
	4	28.1%		4	6.3%
	5	15.6%		5	28.1%
	1	9.4%		1	12.5%
	2	25.0%		2	25.0%
2	3	28.1%	2	3	12.5%
	4	15.6%		4	25.0%
	5	21.9%		5	25.0%
	1	21.2%		1	9.1%
	2	12.1%		2	27.3%
3	3	15.2%	3	3	15.2%
	4	27.3%		4	21.2%
	5	24.2%		5	27.3%
	1	6.3%		1	28.1%
	2	25.0%		2	15.6%
4	3	21.9%	4	3	28.1%
	4	21.9%		4	21.9%
	5	25.0%		5	6.3%
	1	28.1%		1	15.6%
	2	25.0%		2	21.9%
5	3	28.1%	5	3	25.0%
	4	6.3%		4	25.0%
	5	12.5%		5	12.5%

Over a half of managers in the bottom quintile (in red at left) in 2008-12 reached the top two quintiles for the period 2013-17

Source: Cambridge Associates LLC.



Contributors to this report include Erika Spence, Melanie Blum, Kelsey Chapman, Daniel Day, Casey Heikes, and Louisa Lawton.

Copyright © 2018 by Cambridge Associates LLC. All rights reserved.

This report may not be displayed, reproduced, distributed, transmitted, or used to create derivative works in any form, in whole or in portion, by any means, without written permission from Cambridge Associates LLC ("CA"). Copying of this publication is a violation of US and global copyright laws (e.g., 17 U.S.C.101 et seq.). Violators of this copyright may be subject to liability for substantial monetary damages.

This report is provided for informational purposes only. The information does not represent investment advice or recommendations, nor does it constitute an offer to sell or a solicitation of an offer to buy any securities. Any references to specific investments are for illustrative purposes only. The information herein does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Information in this report or on which the information is based may be based on publicly available data. CA considers such data reliable but does not represent it as accurate, complete, or independently verified, and it should not be relied on as such. Nothing contained in this report should be construed as the provision of tax, accounting, or legal advice. Past performance is not indicative of future performance. Broad-based securities indexes are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. Any information or opinions provided in this report are as of the date of the report, and CA is under no obligation to update the information or communicate that any updates have been made. Information contained herein may have been provided by third parties, including investment firms providing information on returns and assets under management, and may not have been independently verified.

The terms "CA" or "Cambridge Associates" may refer to any one or more CA entity including: Cambridge Associates, LLC (a registered investment adviser with the US Securities and Exchange Commission, a Commodity Trading Adviser registered with the US Commodity Futures Trading Commission and National Futures Association, and a Massachusetts limited liability company with offices in Arlington, VA; Boston, MA; Dallas, TX; Menlo Park, CA, New York, NY; and San Francisco, CA), Cambridge Associates Limited (a registered limited company in England and Wales, No. 06135829, that is authorised and regulated by the UK Financial Conduct Authority in the conduct of Investment Business, reference number: 474331); Cambridge Associates Limited, LLC (a registered investment adviser with the US Securities and Exchange Commission, an Exempt Market Dealer and Portfolio Manager in the Canadian provinces of Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario, Québec, and Saskatchewan, and a Massachusetts limited liability company with a branch office in Sydney, Australia, ARBN 109 366 654), Cambridge Associates Investment Consultancy (Beijing) Ltd (a wholly owned subsidiary of Cambridge Associates, LLC which is registered with the Beijing Administration for Industry and Commerce, registration No. 110000450174972), and Cambridge Associates Asia Pte Ltd (a Singapore corporation, registration No. 200101063G, which holds a Capital Market Services License to conduct Fund Management for Accredited and/or Institutional Investors only by the Monetary Authority of Singapore).